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PIPELINE POLITICS: U.S. CORPORATIONS LEAD FOREIGN ECONOMIC  
POLICY

by

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A paper submitted to the Dean of Academics, Naval War College, for the B. Franklin Reinauer II Defense Economic Prize essay competition.

The contents of this paper reflect my own personal views and are not necessarily endorsed by the Naval War College or the Department of the Navy.

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## **Pipeline Politics: U.S. Corporations Lead Foreign Economic Policy**

The United States industrial base has an overwhelming impact on foreign economic policy. U.S. multinational corporations, especially those in industries vital to the security of the nation, wield enormous power and influence on government policy. In fact, it is industry that is most often the first unofficial American ambassador to enter regions of the world not yet fully integrated into the global community or economy.

The U.S. petroleum industry highlighted the importance of the Caspian Sea basin and the Central Asian states of the former Soviet Union. This region of the world has historically been an oil-producing region. Alexander's armies used oil from surface pools to grease the hubs of their chariots. An opportunity to explore an oil field that had been only partially cataloged by former Soviet geologists was all the invitation American entrepreneurs needed to investigate its potential. As is typically the case, wildcatters, independent oilmen, moved into the region first. When their closely watched successes began to add up, global oil companies saturated the region. They established links and ties with regional heads of state and negotiated their own agreements in an attempt to corner as much of this new market as possible. Their interest and long-term commitment to the basin's nations has forced the U.S. government to address the region and even rethink some of its policies concerning it.

Once again, industry generated geopolitics has become a dominant factor in American policy. The Caspian Sea basin has not yet been designated a “pivotal region” by American strategists. However, a region with oil and natural gas fields larger than those discovered three decades ago in the North Sea and on Alaska’s North Slope, one that potentially has reserves greater than Kuwait, will undoubtedly rise in importance. The *pipeline politics* of the Caspian Sea region are leading U.S. policy. A policy which centers on *access* (U.S. corporate lead on

development of the region's resources and an uninterrupted flow of oil out of the region) and *energy security* (primarily, nullifying Russian and Iranian influence on oil field exploration and development and pipeline export routes). There are ten major proposals competing for the region's Main Export Pipeline (MEP). All portend to be able to get the region's hydrocarbon resources to market. The target market, and consequently the final consumer, are not forgone conclusions. Each competitor is acting according to country, company, or consortium interests, making it a complex environment to operate in.

### **Caspian Reserves and Geopolitics**

There is enough oil, onshore and offshore, in the Middle East, Russia, and Asia to meet projected global demands into the indefinite future. Guaranteeing its distribution to the market place at an acceptable price has become the current challenge for a variety of reasons, most notably, political, economic, and logistic rather than geologic. All of these variables are tied to questions of sovereignty and regional stability. “The world is awash in oil (and coal and natural gas), but the most promising sources for further production are located in two of the most politically unstable regions on earth—the Persian Gulf and the Caspian Basin.”<sup>1</sup>

The Persian Gulf will remain the indisputable principle source of oil for the increasing world demand in the foreseeable future. Global demand is going to continue to increase as Asian countries and other developing nations transition toward improved economies, with increasing industrial demands and increasing personal demands and buying power. The Caspian Sea region has been assessed at having 178 – 191 billion barrels (bbl) of oil reserves (15 times as much as Alaska’s Prudhoe Bay)<sup>2</sup> and 564 – 665 trillion cubic feet (TCF) of natural gas reserves.<sup>3</sup> Initial estimates put the regional potential as high as 230 bbl of oil.<sup>4</sup> The London based International Institute of Strategic Studies criticized as “pure speculation” the multiple U.S. government

agency estimates that the region could hold as much as 200 bbl (the high average number) of oil reserves.<sup>5</sup> Numbers this high would make the Caspian Basin the third largest reserve in the world behind the Persian Gulf (#1) and Siberia (#2).<sup>6</sup> Contrary to this point, many in the industry have estimated the energy reserves as low as 25 – 35 bbl of oil reserves.<sup>7</sup> Along with these criticisms, some have posited that the exploitation costs will be high and the flow of new production will take time to establish.<sup>8</sup> Others have added that the Caspian presents major technical challenges with its sour crude, complex, inter-linked reservoirs, and shortage of off-shore rigs required for both exploratory drilling and product recovery. Low oil prices could potentially price the Caspian crude out of the market. The biggest obstacle to Caspian oil is its distance to markets—between \$3 and \$4 per barrel just to get the oil to a sea port for export—and the additional fixed overhead of shipping costs.<sup>9</sup>

The Caspian basin is also surrounded by conflict. The fact is that no single proposed pipeline project traverses from source to terminus without transiting multiple contentious regions en route. Regional conflict, political instability, and lack of regional cooperation have slowed the development of Caspian oil and gas reserves and threaten to throw the region back into the dark ages of the Soviet legacy. Most major investor countries fear the competition generated by the desire for control over these vast resources will turn the region into a “ . . . zone of instability and crisis.”<sup>10</sup> The Armenian Foreign Minister, Varten Osakanian, counters the mindset that Caspian energy resource development and transnational pipelines will be beneficial. He posits the resources and pipelines will incite inter- and intra-regional disputes in the short run.<sup>11</sup>

In spite of the challenges, senior officials in the world’s major oil companies have called the Caspian “the new gold rush”<sup>12</sup> and likened this rush to the “oil business in the Middle East back in the 1920s and 30s”.<sup>13</sup> “This is one of the last provinces in the world where there is a

certainty of finding *giant fields*. The exploration risk is low, the technological risk is low, but the geopolitical risk is high,” says Terry Adams, the British Petroleum exploration specialist who is the Azerbaijani International Oil Consortium’s (AIOC) president.<sup>14</sup> Major oil and gas companies are lining up to get into key contracts and consortiums to solidify their position on what all are betting will be huge returns. The big leaguers are projecting a 50-year banquet. Production figures are forecast as high as six million barrels of output a day. That would rival the current production figures from Saudi Arabia.<sup>15</sup> Those figures also account for one-fourth to one-third of the new oil demand projected for the year 2010. The gross export revenues for the region are estimated to reach \$30 billion annually by 2010.<sup>16</sup> The economic stakes are enormously high for the region’s nations.

The region being landlocked, has no single means of exporting product without crossing another sovereign territory, and has no access to navigable waterways that are open to international shipping. Export options become rather apparent, and by deduction, pipelines dominate the options of rail, barge, or line-haul (semi-trailer), in terms of efficiency (volume) and cost effectiveness. As was pointed out, the region is rife with unrest and separatist struggles. There is only one pipeline near completion and two currently under construction. The multiple route proposals all have their unique challenges. Lack of financial support leads the list of detractors. This lack of commitment is directly tied to regional instability. Only those companies with deep pockets and a very long outlook are moving ahead. All others continue to advertise their proposals and search for strong-backed investors.

The northern pipeline route originates in Baku, Azerbaijan and terminates on the Black Sea in Novorosiisk, Russia, passing for 80 miles through the Russian republic of Chechnya.<sup>17</sup> Chechnya is making a bid for economic independence with its own pipeline proposal.<sup>18</sup> The

western pipeline route originates in Baku, Azerbaijan and terminates on the Black Sea in Supsa, Georgia, passing near the Armenian populated Azeri Nagorno-Karabakh region.<sup>19</sup> This same route passes near several regions in Georgia that are also the sites of separatist movements. Abkhazia won a civil war against Georgia, but has not yet been able to sever ties with Georgia. The terminus of the western route is 12 miles from Abkhazia.<sup>20</sup> The route most heavily favored by the U.S. government for the MEP originates in Baku and terminates on the Mediterranean Sea in Ceyhan, Turkey, passing through the Kurdish stronghold in northeastern Turkey. The Caspian Pipeline Consortium (CPC) has nearly completed a pipeline that will transport oil through the tumultuous southern region of Russia adjacent to Georgia, from Tengiz, Turkmenistan to Novorosiisk, Russia. A proposed Central Asia Oil Pipeline would originate in Turkmenistan and terminate in Pakistan, passing through Afghanistan and possibly India. The Afghani civil war has caused suspension of the project. The U.S. has blocked the southern route because it passes solely through Iran. Greece has proposed two routes that bypass Turkey and the Bosphorus Strait, one through Romania and Greece, to the Adriatic Sea, and another through Bulgaria and Greece, to the Aegean Sea.

### **Seven Steps to Success in the Caspian Basin**

The U.S. policies of enhancing commercial opportunities for U.S. companies, mitigating regional conflict by creating economic interdependence, and ensuring energy security for the U.S. and U.S. allies highlight the vital importance of this region.<sup>21</sup> This clearly signals that the Caspian Sea basin and surrounding export corridors, principally the trans-Caucasus routes due to their feasibility and viability, make the stability and prosperity of this region a vital American interest. The current situation in the region dictates innovative and imaginative U.S. responses to ensure stability and prosperity are enhanced and not denigrated.

The inferred endstate of U.S. national policy positions the U.S. as a regional leader, directing the democratization and development of the Caspian basin countries, with an emphasis on Azerbaijan, Kazakhstan, and Turkmenistan. The following seven steps are recommended for successful implementation of U.S. economic policy in the Caspian Sea basin and associated pipeline conduits.

- 1) U.S. interests in the region would best be served with a rapid, equitable demarcation of the Caspian Sea. This issue forms the basis for all further diplomatic and economic dealings within the region. This is a legal issue that the U.S. can assist with.
- Nonetheless, the five nations surrounding the Caspian Sea should establish a multilateral legal regime that addresses all aspects of the Law of the Sea, to include shipping, fishing and environmental rights and responsibilities.
- 2) It is a prerequisite to U.S. leadership in the region to support with the full weight of the nation's capabilities the successful multilateral arbitration for the MEP from Baku to Ceyhan, and eventually open an additional trans-Caspain Sea pipeline originating in Tengiz, Kazakhstan. It will keep the U.S. engaged with key countries in the region, raise U.S. stakes in the success of the region, enhance Turkey's position in the region, and limit Russian and Iranian influence over exportation of product by bypassing their internal pipeline networks and the Strait of Hormuz.
- 3) The U.S. must walk the diplomatic tightrope of limiting Russian economic penetration into this region while maintaining diplomatic and economic ties and cooperation. For example, this policy acknowledges the limited Russian exploration in the northern Caspian, the export of Kazak oil, and cooperation on Sea related legal issues. It specifies, however, that the near Russian monopoly over regional exports will be broken, establishing fair trade and competition, eliminating the Russian control of exports.
- 4) Turkey is moving to establish itself as a regional leader. The U.S. government should support this new Turkish role. Turkey has played the cultural card, emphasizing the Turkic language

root of all Central Asian nations, except Tajikistan, as a natural reason for alliance and further cooperation.<sup>22</sup> As well, these countries have seen the value of being associated with a U.S. and NATO ally and invite the union. Turkey is America's greatest ally in the region and by default is a U.S. hedge against Russia and Iran. Turkish leadership in the region would benefit the U.S.

5) The U.S. must walk a second tightrope with Iran. Iran's influence and potential in the region have to be kept subjugated. Encouraging other U.S. allies in the region may help establish a regional competitor. Unfortunately, Iran claims geographically, religiously, and historically to be the center of the region and is demanding a regional leadership role. For the time being, that role has been restricted due to the efforts of U.S. However, there are those in the Administration and industry, as well as Iran, that believe the time has come for rapprochement. Continued isolation of Iran could be counterproductive. Fostering a relationship with Iran has a greater potential of long-term benefit for regional and global concerns. This development will have a significant impact on U.S. policy and strategy in the region.

6) China has conducted two feasibility studies on a pipeline that would originate in Kazakhstan and terminate on the Chinese coast near the Sea of Japan, with the possibility of a further extension directly into Japan. The cost to build and maintain this pipeline far exceeds the value of any profits that may be derived from it, leading one, coupled with the knowledge of proven Chinese reserves, to speculate that its purpose is as a strategic hedge rather than a currency generator. This is an unprecedented opportunity for the U.S. and U.S. corporations to assist China, generating U.S. profits, establishing a U.S. presence deep inside China for an extended period of time, and providing a venue for further cooperation between the two countries.

7) Iran is insistent on reclaiming its right as the regional leader. It follows that an alternate leader, a competitor to Iran, should be fostered. Pakistan provides the logical choice. Pakistan is a peer competitor with Iran and has

interests throughout the region. The two countries share a common border. Pakistan can provide an uncontested, more direct pipeline route to the Indian Ocean from the Caspian basin. This route also avoids a key maritime choke point, the Strait of Hormuz. Pakistan would benefit from the infusion of Caspian generated dollars. Pakistan also shares borders with Afghanistan (too much internal turmoil to be considered) and Tajikistan (a lesser regional player), and is already under consideration for southern tangential export routes from Turkmenistan, Kazakhstan, and Uzbekistan (a player in the natural gas market). India's potential objections can be appeased with support to pipelines that enhance their strategic and economic position.

The U.S. is garnering relationships in the region. Cooperation is the current strategy. No antagonist has risen to challenge the ongoing economic and social intrusion that is occurring throughout the region. Regional heads of state are boldly eliciting investment in their countries. It promotes stability and prosperity, but most importantly for the NIS, *economic independence* and “*true*” *sovereignty*. The U.S. can assist industry in the region by establishing a comprehensive policy that addresses access and energy security.

#### **Economic Policy: Access and Energy Security**

Prior to the collapse of the Soviet Union, the Caspian Sea was contained within the borders of the former Soviet Union and Iran. The two countries signed regional treaties concerning the Caspian in 1921 and 1940. The subsequent collapse of the Soviet Union and rise of three new Caspian basin states destabilized the former detente'. The basin's revitalization has generated the hotly contested question of *ownership*, which seems to be the key to the stability and development of the region. Although the legal debate has abated somewhat, the question has not been answered to the satisfaction of all nations concerned. The legal issue centers on the

treaties signed by the former Soviet Union and Iran (which did not establish seabed boundaries or discuss resource exploration), and the legal regime to be applied to the Caspian Sea.<sup>23</sup>

The Caspian is a lake and albeit the largest, is not covered by the Law of the Sea. Under the Law of the Sea, the five nations surrounding the Caspian would divide the sea and undersea resources into national sectors. A median line, serving as the national boundaries, would be established equidistant from the shores of each nation. Conversely, not applying the Law of the Sea permits the Caspian and its resources to be developed jointly. Indicating for example, that complex arrangements would have to be negotiated with all five countries for a single well, or possibly, that a rogue state may launch out on its own, conducting no coordination with other countries.

U.S. policy has been to assist the countries of the basin area, but insists that the Caspian basin countries reach a framework for a legal regime themselves. Consensus on the Caspian legal issue has evolved from a wide variety of initial positions to a near accord by all nations except Iran. “The recent changes in positions of the sides show that they want to reach a final solution to the problem of the Caspian Sea.”<sup>24</sup> The nations of the Caspian basin have opened the Caspian Center in Baku, Azerbaijan to coordinate dispute resolution.<sup>25</sup> The U.S. National Imagery and Mapping Agency can offer unique assistance in the demarcation of the Caspian by establishing an equitable median line, but the U.S. should resist directing the final demarcation. Michael Cotter, the acting U.S. Ambassador to Turkmenistan said there could only be “. . . sizable investments in the region . . .” after the division of the Caspian. He went on to say, “If the Caspian is considered common territory, the foreign companies eager to develop it will have to negotiate with the governments of all the coastal states, and that is hardly possible.”<sup>26</sup>

Initial dialog with regional leaders has been orchestrated by U.S. industry, well in advance of the government. “They [Azerbaijan, Kazakhstan, and Turkmenistan] recognized that with the forces they have around them—Russia and Iran—only a strong relationship with the U.S. provides an opportunity for stability and for not being totally dominated. Since the U.S. government was slow to pick up on the importance of the region, they forged relationships with U.S. business.”<sup>27</sup> The son of the President of Azerbaijan and Vice President of the Azerbaijan International Oil Company (AIOC) said, “We used oil for our major goal . . . to become a real country.”<sup>28</sup>

U.S. industry has set the standard for engagement and produced a political realignment of historical proportions. American oil companies have helped revive collapsing economies and have brought near to an end a century of dependence on Russia. These actions however, have threatened Russian influence in the region and have elicited charges of regional hegemony against the U.S. The U.S. should not shy away from its commitment to the region because of these challenges. Russia’s economic penetration into the region, one seen as a birthright, should be limited, but not to total exclusion. U.S. economic support to the CPC will keep oil flowing through Russia and consequently, will appease most Russian interests. U.S. negotiations with Russia on behalf of U.S. companies for pipeline right-of-way corridors have benefited all involved, although, Russian graft and inefficiency continuously threaten to bog down the progress.

It is also U.S. industry that is not so quietly supporting rapprochement with Iran. The current U.S. policy on Iran, as dictated in the 1996 Iran-Libya Sanctions Act (ILSA), has made Caspian hydrocarbons central to the Administration’s internal debate over U.S. and Iranian relations. An unintended consequence of being closed out of pursuing business with Iran, and

for that matter Libya and Iraq, is that the Caspian basin has become more critical as a source of oil. The Administration has made overtures to Iran, even calling for government-to-government dialogue.<sup>29</sup> The U.S. policy of isolating Iran has not been a major success of U.S. foreign policy. Infighting between Capitol Hill and the White House have left strategic direction untraceable. Senator Specter of Pennsylvania has pointed out that “ . . . Europeans are much more interested in Iranian oil profits than they are isolating Iran.”<sup>30</sup> This fact, coupled with current restrictions on U.S. oil companies has complicated “western” efforts to develop the region. Moreover, the Administration has been “insisting that oil company partners” build a longer, more expensive, and more vulnerable pipeline through Turkey, rather than take the logical, more direct and cheaper route due south through Iran.<sup>31</sup> A collateral effect on U.S. policy is that the Turkish government and French oil company, Total, have both directly defied U.S. sanctions and proceeded with Iranian oil and pipeline projects. This has left the Administration in the uncomfortable position of deciding what to do, especially so considering its heavy, singular endorsement of the Baku-Ceyhan MEP. Many Iranians are looking to the U.S. as a kindred spirit, hoping that Iran will soon become too “indispensable,” in terms of geographic location over known reserves and on multiple trade routes, as a mediator in regional conflict, and with the region’s largest and most feared armed force (marketed as a stabilizer by the Iranians), for the world’s one remaining superpower to continue to ignore.<sup>32</sup> Political science teaches that no friend is forever, and no enemy is forever, only *mutual interests* are forever.<sup>33</sup> As with Cuba, the U.S. risks isolating only itself by following a policy of “containment” with Iran.

Outside the Seven-Step Framework, the U.S. has the opportunity to regenerate a relationship with an old friend—Afghanistan. Conditions are not correct for rapprochement with Afghanistan. However, the development of the region cannot have escaped the Taliban.

Afghanistan has seen a significant opportunity lost with the termination of the Central Asia Oil Pipeline project, due in large part to the civil unrest and unpredictable nature of Afghanistan today. Afghanistan is today's Iran. The U.S. should signal a wary, but cooperative attitude by extending inducements for movement toward the world community and away from harboring terrorists. Afghanistan may be persuaded by the collective improvement of the region not to be left out.

Turkey has emerged as an inside track to regional influence in the Caspian Sea basin. Although shunned by the European Union, Turkey intends to display its full potential. Turkey is playing its cultural card with unprecedented success. Despite its affront to U.S. policy in the region, relations are growing stronger between the two nations. The Administration has already hinted that Turkey's actions are "outside" the purview of the ILSA. The U.S. has conducted extensive negotiations and has gathered multilateral support for the Baku-Ceyhan MEP, although considered financially infeasible by industry. The U.S. has offered economic inducements to every country on the proposed route and the companies expected to form the consortia to build it. Turkey has done as much as well, recognizing the potential significance and power of its position. The U.S. led negotiations for the ratification of the Ankara Declaration, which names Baku-Ceyhan as the region's MEP, was signed by the governments of Azerbaijan, Georgia, Kazakhstan, Turkey, and Uzbekistan.<sup>34</sup> The U.S. further supported the Turkish position on the Bosphorus Strait. All proposed viable pipelines today terminate on the Black Sea, indicating oil tanker shipment via the Strait, out to the Mediterranean Sea, and on to world markets.

The Bosphorus Strait is the most difficult seventeen miles of strait in the world to navigate. Istanbul boasts a population of eleven million. Turkey has postulated that the increased tanker traffic is an invitation for disaster. Consequently, the Turkish government has announced tighter

restrictions on the use of the Bosphorus. These actions have caused an uproar from Russia who claims Law of the Sea free passage out of the Black Sea—driven obviously to ensure its export route is not closed or constrained in any way. Russia waves a 1936 treaty to support its position. The U.S. and Turkey have initiated a joint upgrade to the Strait's navigational aides, but Turkey insists it envisions “great, great lines of tankers in the Black Sea waiting to cross the Bosphorus.”<sup>35</sup> Turkey has proposed this and other “disincentives” for those who may consider alternatives to the Baku-Ceyhan route, and along with the U.S. has warned of “insurmountable political objections” to specific routes designed to bypass both the Bosphorus and Turkey, namely the Bulgaria-Greece route and the Romania-Greece route.<sup>36</sup>

The United States' greatest tool is financial leverage. The dollar counts. The U.S. wields this powerful tool through its Overseas Private Investment Corporation (OPIC), the Export-Import Bank (EX-IM Bank), and the Trade Development Authority (TDA). All of whom have been tasked to support the Baku-Ceyhan route and the three central NIS in the Caspian basin. The unexpected low price of oil is having an impact on development that was not foreseen ten years ago. The lower margins are putting in jeopardy future development and call into question the policy of building long, expensive pipelines. Despite U.S. economic inducements, senior oil company executives still caution, “You better look, before you invest three billion dollars into a pipeline, [at] who you’re going to have to compete with for the next forty years.”<sup>37</sup>

It was industry again, through the President of Amoco, who enlightened the administration on its dual policy towards Azerbaijan. Section 907 of the Freedom Support Act imposed sanctions on Azerbaijan because of its conflict with Armenians in the Azeri Nagorno-Karabakh region, while the administration was espousing cooperation. The Administration is using the Presidential lobby in an attempt to influence Congress to repeal Section 907 of the Act.

The European Union (EU) is not to be outdone in the Caspian basin. They see the traditional route of the old Silk Road from Asia into central Europe as a logical route for the oil and natural gas to follow. President Shevardnadze of Georgia first proposed, and the EU adopted, the idea of a European transport corridor. The Transport System Europe-Caucasus-Asia (TRACECA), informally known as the Great Silk Road, would run west-east from Europe, across the Black Sea, through the Caucasus, and into Central Asia.<sup>38</sup> Twelve nations signed the Baku Declaration to develop the corridor.<sup>39</sup> An interesting point, and an illuminating one, is that the same nations that signed the Ankara Declaration signed the Baku Declaration, including Turkey, adding Bulgaria and Romania to this consortium. The U.S. should not miss this signal that each country in the region is establishing a hedge, placing national interests above all else.

Finally, the U.S. can compliment its policy by establishing trade offices with each country in the region. The Economic section of regional U.S. embassies are equipped, but not specialized enough, to deal with the influx information seekers. No single project has the luxury of autonomy, all pipeline projects cross sovereign boarders, advancing the need for a regional organization. Consequently, the U.S. opened the Caspian Trader and Foreign Investment Center in Ankara, Turkey. Further, the U.S. could assist those cooperative organizations regional leaders have established, such as the Caspian Center in Baku, Azerbaijan.<sup>40</sup> The Administration has passed the Foreign Operations Act to address development in the Caspian basin and to assist U.S. corporations in their dealings with regional governments.

### **Conclusion**

U.S. multinational corporations have historically been able to assess foreign economic potential far more quickly than the U.S. government. Consequently, industry's initial probes position them as unofficial ambassadors for America. Their lead into developing regions of the

world is usually ahead of U.S. policy. Although government and industry do not always agree, more often than not, the U.S. government will establish policies to enhance U.S. business position and power. This government effort is designed to enhance overall U.S. economic and strategic interests abroad as well.

The U.S. petroleum industry opened the door and paved the path for U.S. diplomatic and economic engagement in the Caspian Sea basin. Industry obviously operates to achieve its own self-interests. However, vital national industries and the U.S. government cannot operate independently of each other for extended periods. Industry will often lead the country into a region in search of profits, but ultimately establishes an opportunity, or a requirement, for the U.S. government to formally address the region in pursuit, or protection, of national goals and interests. It is not above industry to attempt to direct or change national policy when it is in conflict with industry goals.

Some may argue the contentious relationships of the aforementioned countries would doom regional cooperation to uselessness. However, recent actions indicate circumstances may be changing. In addition to the intra-regional cooperative efforts detailed above, Russia and Chechnya ended their war and postponed the Chechyan independence question for five years in order to finalize an agreement with Azerbaijan for the shipment of early Azeri oil. Russia has offered to provide economic aid to Chechnya. Georgia has proposed to Abkhazia the possibility of routing future oil pipelines across the breakaway republic. Finally, Azeri President Aliyev has extended an olive branch to Armenia in the form of a pipeline routed through Armenia en route to Turkey in exchange for Armenian withdrawal from Azeri occupied territory. Armenia has not yet capitulated, but it may see its final chance for oil revenues disappear with this offer. The

opportunity to share in the wealth has become in many instances a stronger force than ethnic self-determination.

Industry has refocused the government on the geopolitics of the Caspian Sea basin. Arguably, it has created a new “micro-pivotal region,” one which could reasonably be included in a Middle East-Central Asia “energy bloc.” Industry highlighted the region’s potential wealth. Regional leaders recognized that wealth could bring them economic independence and “true” sovereignty. Consequently, they are laying down their arms, solving, postponing, or denouncing their differences and launching activities designed to capture that wealth, rather than continue fighting and allow the opportunity to bypass them. The U.S. oil industry’s initial interest and eventual exploration and development of resources generated the *pipeline politics* of the Caspian Sea basin.

## **ANNEX A**

### **Details on the Caspian Legal Debate**

Azerbaijan advocates the establishment of national sectors with maritime boundaries based on the establishment of a median line, and for the Law of the Sea to be applied.<sup>41</sup> Kazakhstan supports the establishment of national sectors in conjunction with cooperation on the environment, fishing, and navigation.<sup>42</sup> In October 1998, the President of Turkmenistan agreed to a division of the Caspian into national sectors.<sup>43</sup> The Russian position has varied the most over time. It claims their initial agreements with Iran are still valid. However, in July 1988, Russia signed a bilateral agreement with Kazakhstan to divide the northern Caspian seabed along a median line established between the two, with the provision that the use of Caspian waters for shipping, fishing, and environmental responsibility remain under joint ownership.<sup>44</sup> This accomplished two things for Russia, it reestablished Russian involvement in the development process of the only oil field near its coastline, with low risk of future contention, and it maintained former Soviet agreements with Iran. Iran on the other hand, is contending for coastal zones divided into national sectors (e.g., forty-five mile economic exclusion zone) and the remainder of the Sea under common ownership, for all resources, shipping, fishing, and environmental issues. Iran has shown a recent willingness to consider the division of the Caspian into national sectors, like all other littoral states, but caveat their position with a requirement for an equal five way split, with twenty percent of the Sea and its resources going to each country.<sup>45</sup> This is an obvious reflection of their desire to acquire the maximum number of southern Caspian oil fields as possible.

## **ANNEX B**

### **U.S. Regional Policy Statement**

U.S. Regional policy is to: 1) strengthen the viability of the NIS as market-based democracies by steadfastly supporting their independence, territorial integrity, and prosperity; 2) Enhance commercial opportunities for U.S. and other companies; 3) Mitigate regional conflicts by building economic linkages between the new states of the region; and 4) Ensure that Caspian energy resources bolster the energy security of the U.S. and our allies, as well as the energy independence of the Caspian NIS, by guaranteeing the free flow of Caspian oil and gas to world markets.<sup>46</sup>

The National Security Strategy (NSS) highlights the administration's view that the Caspian Basin will play an increasingly important role in meeting the future world demand for energy resources.<sup>47</sup> The President directed that, "We must continue to be mindful of the need for regional stability and security in key producing areas to ensure our access to and the free flow of these resources."<sup>48</sup>

<sup>1</sup>Geoffrey Kemp and Robert E. Harkavy, Strategic Geography and the Changing Middle East (Harrisonburg: R. R. Donnelley and Sons Company, 1997), 109-110.

<sup>2</sup> Joseph Albright and Marcia Kunstel, "The Wealth of New Nations," The Atlanta Journal Constitution, 15 June 1997, A08.

<sup>3</sup> C. Fowler, Defense Intelligence Report, USCENTCOM, Impact of Caspian Sea Oil/Gas Production On Global Supply and Demand (Joint Intelligence Center Central: 15 July 1998), 1.

<sup>4</sup> One barrel contains 42 gallons of oil.

<sup>5</sup> Martha Hamilton, "The Last Great Race for Oil Reserves? Companies Scramble to Tap up to 200 Billion Barrels in the Caspian Sea Region," The Washington Post, 26 April 98, H1.

<sup>6</sup> Ibid.

<sup>7</sup> Nick Zana, Managing Director, Eurasia Business Unit, Chevron Overseas Petroleum Inc., "Caspian Oil in 1999: The Imperative of World-Class Performance," remarks as delivered to the Institute of Petroleum's IP Week Conference on Caspian Oil & Gas, London, England, 18 February 1999, 1.

<[http://www.chevron.com/chevron\\_root/news/speeches/1999/99-02018.html](http://www.chevron.com/chevron_root/news/speeches/1999/99-02018.html)> (1 April 1999)

<sup>8</sup> Ibid.

<sup>9</sup> Zana, 6.

<sup>10</sup> Martha Olcott, "The Caspian's False Promise," Foreign Policy, Summer 1998, 1.

<sup>11</sup> United States Energy Information Administration, "Caspian Regional Conflict," December 1998, 1.

<<http://www.eia.doe.gov/emeu/cabs/caspconf.html>> (18 April 1999)

<sup>12</sup> Joseph Albright and Marcia Kunstel, "The Wealth of New Nations," The Atlanta Journal Constitution, 15 June 1997, A08.

<sup>13</sup> Hamilton, H1.

<sup>14</sup> Albright and Kunstel, A08.

<sup>15</sup> Ibid.

<sup>16</sup> Ibid.

<sup>17</sup> United States Energy Information Administration, "Caspian Regional Conflict," December 1998, 2.

<<http://www.eia.doe.gov/emeu/cabs/caspconf.html>> (18 April 99)

<sup>18</sup> Ibid.

<sup>19</sup> Ibid., 1.

<sup>20</sup> Ibid., 2.

<sup>21</sup> Ambassador Richard Morningstar, Special Advisor to the President and Secretary of State for Caspian Basin Energy Diplomacy, address to the CERA Conference, Washington DC, 7 December 1998; and Ambassador Morningstar's address at Kent State University, Kent, Ohio, 23 November 1998.

<[http://www.state.gov/www/policy\\_remarks/1998/](http://www.state.gov/www/policy_remarks/1998/)> (7 April 1999)

<sup>22</sup> William Odom, "US Policy Toward Central Asia and the South Caucasus," The Hudson Institute, Washington, D.C., 3.

<<http://ourworld.compuserve.com/homepages/usazerb/311.htm>> (19 April 1999)

<sup>23</sup> United States Energy Information Administration, "Caspian Legal Issues," December 1998, 1.

<<http://www.eia.doe.gov/emeu/cabs/casplaw.html>> (19 April 99)

<sup>24</sup> "Azeri State Oil Official Says Iran Only 'Stumbling Bloc' in Caspian Dispute," ANS News Agency, Baku, as provided by BBC Worldwide Monitoring, 7 August 1998, 1.

<sup>25</sup> United States Energy Information Administration, "Caspian Legal Issues," December 1998, 1.

<<http://www.eia.doe.gov/emeu/cabs/casplaw.html>> (19 April 99)

<sup>26</sup> "U.S. favors division of Caspian into national sectors," Interfax News Agency, Moscow, as provided by BBC Worldwide Monitoring, 3 July 1998, 1.

<sup>27</sup> Dan Morgan and David Ottaway, "Azerbaijan's Riches Alter the Chessboard," The Washington Post, 4 October 1998, 2.

<sup>28</sup> Ibid., 3.

<sup>29</sup> David Ivanovich, "Thaw Hasn't yet Opened Way to Iran, Oil Companies May be Slow to Benefit," Houston Chronicle, 10 Jan 1998, 3.

<sup>30</sup> Ibid., 1.

<sup>31</sup> Ibid., 2.

<sup>32</sup> Scott Peterson, "Driven By Oil, Iran Reaches for Dominance," Christian Science Monitor, 8 April 1997, 2.

<sup>33</sup> Ibid., 3.

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<sup>34</sup> United States Energy Information Administration, "Caspian Sea Region," December 1998, 2.  
<<http://www.eia.doe.gov/emeu/cabs/caspian.html>> (1 April 1999)

<sup>35</sup> Jim Landers, "The Caspian Conundrum," The Dallas Morning News, 28 December 1998, 4.

<sup>36</sup> Ibid.

<sup>37</sup> Ibid., 2.

<sup>38</sup> United States Energy Information Administration "Caspian Sea Region," December 1998, 2.  
<<http://www.eia.doe.gov/emeu/cabs/caspian.html>> (1 April 1999)

<sup>39</sup> Ibid.

<sup>40</sup> United States Energy Information Administration, "Caspian Legal Issues," December 1998, 1.  
<<http://www.eia.doe.gov/emeu/cabs/casplaw.html>> (19 April 1999)

<sup>41</sup> Ibid.

<sup>42</sup> Ibid.

<sup>43</sup> Ibid.

<sup>44</sup> Ibid.

<sup>45</sup> Ibid.

<sup>46</sup> Ambassador Richard Morningstar, Special Advisor to the President and Secretary of State for Caspian Basin Energy Diplomacy, address to the CERA Conference, Washington DC, 7 December 1998; and Ambassador Morningstar's address at Kent State University, Kent, Ohio, 23 November 1998.

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<sup>47</sup> William Clinton, "A National Security Strategy for a New Century," The White House, October 1998, 32.

<sup>48</sup> Ibid., 33.

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